

PALI RESEARCH

October 10, 2008

News Corporation

Reducing Estimates and Price Target as Global Economy Sinks; Now Trading at 7.4x CY '09E EPS

With signs that several of News Corp's businesses are seeing further weakening (on top of mounting currency pressure), we are reducing our FY2009 EPS forecast by \$0.10 cents, to \$1.16 from \$1.26, with our calendar 2009 estimate dropping to \$1.22 from \$1.34. This is our second estimate cut in the past month (we reduced our FY09 EPS estimate from \$1.30 to \$1.26 on 9/18/08), with our FY 2009 estimate now 20% below our forecast in January 2008; during that same time, NWS'A's stock price has declined about 56%.

- NWS'A now trades at a mere 7.4x CY2009E EPS and 8x reported CY2009E FCF, 6x '09 FCF adjusted for BSKyB, and under 3.0x calendar 2009E EV/EBITDA.
- Our estimate cuts (see Exhibit A) center on reduced expectations for TV stations and Newspapers due to the local advertising meltdown that is underway, a significant cut to our filmed entertainment forecast as we are taking a more conservative view of FY2009, due to the timing of releases, and modest downward earnings pressure from currency shifts.

Further, in an environment where cash is king, News Corp. rests comfortably with \$6 billion in cash on its balance sheet, leverage that is currently around 1.5x, which should reach about 1.0x by fiscal (June) year-end 2009 (with \$9 bn-plus of cash on hand by year-end 2009 due to free cash flow generation and asset sales).

- News Corp.'s financial (cash-rich) strength should create opportunities to enhance shareholder value such as in Germany (recent fraud revelations at Premiere, could enable News Corp. to leverage its 25% stake into ownership of the entire company at a very attractive valuation per subscriber). In addition, whenever the global economy stabilizes, we expect News Corp. to use its balance sheet to buy back stock.

Guidance Unachievable, but More than Reflected in Share Price. We do not think News Corp will be able to deliver on its

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NWS'A: BUY

NWS: BUY

Price \$9.01/\$9.21

Target Price: \$20.00 [was \$27.00]

52 Week Range: NWSA	\$9.01-\$23.58
Market Cap. (mm):	\$26,769
Avg. Daily Volume (100 day):	11,760,500
4-Yr. Est. EPS Growth Rate:	6%

NWSA Fiscal June	2007A	2008A	2009E
Q1	\$0.18A	\$0.23A	\$0.22E
Q2	\$0.25A	\$0.29A	\$0.32E
Q3	\$0.27A	\$0.30A	\$0.31E
Q4	\$0.31A	\$0.35A	\$0.32E
FY	\$1.00A	\$1.22A	\$1.16E
Cal. PE	NM	NM	7.4x
Consensus	NM	NM	\$1.25E
Prior EPS	NM	NM	\$1.26E
Revenues	\$28,655	\$32,996	\$32,504
EBITDA	\$5,407	\$6,668	\$6,409
Cal EV/EBITDA	NM	NM	2.7x

Source: Pali Research Estimates and Company Documents
Note: Our EPS estimates exclude non-recurring items reflected in News Corp.'s Other Income Line items.
P/E, EV/EBITDA multiples are based on CY ests.

Please Read: Important disclosures and analyst's certification appear in Appendix

target of 4-6% operating income growth for FY09. Our forecast now assumes a 2% Y/Y decline (excluding several one time items) versus our prior +4% Y/Y estimate.

- The greatest cut in our estimate is in News Corp's Television segment, and primarily in the O&O Station group, where trends appear to be deteriorating rapidly. Our forecast now assumes a near 20% organic TV operating income decline in FY09 (the estimated reported decline is a higher 27% given recent TV station asset sales).
- Our FY09 EPS estimate of \$1.16 does not include an estimated \$575 million write down (\$0.14 per share after tax) of News Corp.'s investment in Premiere which we suspect could happen as early as fiscal Q109. It also excludes anticipated gains on its sale of a portion of its stake in NDS.

Reducing Price Target from \$27.00 to \$20.00. With News Corp. down 56% year-to-date, and with valuations across our universe collapsing, we felt it simply made sense to take a more conservative approach to upside over the next 12 months.

- Our new \$20.00 price target is based on 16x calendar 2009E EPS, 7.0x calendar 2009E EBITDA and 16x calendar 2009E adjusted free cash flow.

Exhibit A: Changes to our News Corp. Earnings Model (\$ millions, excluding per share figures)

	<u>2008</u>	<u>'08 Growth</u>	<u>New 2009E</u>	<u>New '09 Growth</u>	<u>Old 2009E</u>	<u>Old '09 Growth</u>
Newspapers	\$6.248	39.3%	\$6.154	-1.5%	\$6.736	7.8%
FSI	\$1.124	0.4%	\$1.101	-2.0%	\$1.101	-2.0%
Filmed Entertainment	\$6.699	-0.5%	\$6.176	-7.8%	\$6.492	-3.1%
Television	\$5.807	1.8%	\$5.254	-9.5%	\$5.424	-6.6%
Sky Italia	\$3.749	21.9%	\$3.868	3.2%	\$3.967	5.8%
Cable Programming	\$4.993	28.0%	\$5.758	15.3%	\$5.758	15.3%
Book Publishing	\$1.388	3.0%	\$1.333	-4.0%	\$1.342	-3.3%
Other	\$2.988	30.7%	\$2.859	-4.3%	\$2.862	-4.2%
TOTAL REVENUES	\$32.996	15.1%	\$32.504	-1.5%	\$33.683	2.1%
<u>OPERATING INCOME</u>						
Newspapers	\$0.767	17.4%	\$0.696	-9.3%	\$0.752	-1.9%
FSI	\$0.352	5.1%	\$0.339	-3.6%	\$0.339	-3.6%
Filmed Entertainment	\$1.246	1.7%	\$0.958	-23.1%	\$1.070	-14.2%
Television	\$1.126	17.0%	\$0.818	-27.4%	\$0.979	-13.0%
Sky Italia	\$0.419	89.6%	\$0.568	35.7%	\$0.534	27.5%
Cable Programming	\$1.269	16.4%	\$1.575	24.1%	\$1.575	24.1%
Book Publishing	\$0.160	0.8%	\$0.150	-6.5%	\$0.152	-4.9%
Other	\$0.042	NM	(\$0.057)	-235.4%	(\$0.059)	-239.4%
TOTAL OPERATING INCOME	\$5.381	20.9%	\$5.048	-6.2%	\$5.343	-0.7%
OP Inc. (Prior to One-Time Gain)	\$5.241	17.7%	\$5.048	-3.7%	\$5.343	1.9%
OP Inc. (Pre Gains, Ex-DJ)	\$5.197	16.7%	\$4.978	-4.2%	\$5.273	1.5%
OP Inc. (Pre Gains, Ex-DJ, Ex-NDS)	\$4.949	18.1%	\$4.891	-1.2%	\$5.183	4.7%
OP Inc. (Ex Land/RSN/TV station sales)	\$5.130		\$5.048	-1.6%	\$5.343	4.1%
<u>EPS (pre-non-recurring)</u>	\$1.22	21.3%	\$1.16	-4.3%	\$1.26	3.2%
EPS - Reported	\$1.81	68.3%	\$1.59	-12.1%	\$1.93	6.5%
<u>Adjusted FCF</u>	\$2.482	-11.4%	\$2.583	4.1%	\$2.848	14.7%
Adjusted FCF/Share	\$0.84	-5.2%	\$0.99	18.5%	\$1.13	35.3%

Source: Pali Research estimates.

APPENDIX

IMPORTANT DISCLOSURES AND ANALYSTS' CERTIFICATIONS**Analyst Certification**

I, Richard S. Greenfield, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

I, Ari Danes, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

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Unless otherwise noted, all prices are as of the close on October 9, 2008.

Valuation Methodology

- Our \$20.00 price target is based on 16x calendar 2009E EPS, 7x calendar 2009E EBITDA and 16x calendar 2009E adjusted free cash flow.

Risks to our valuation and price target

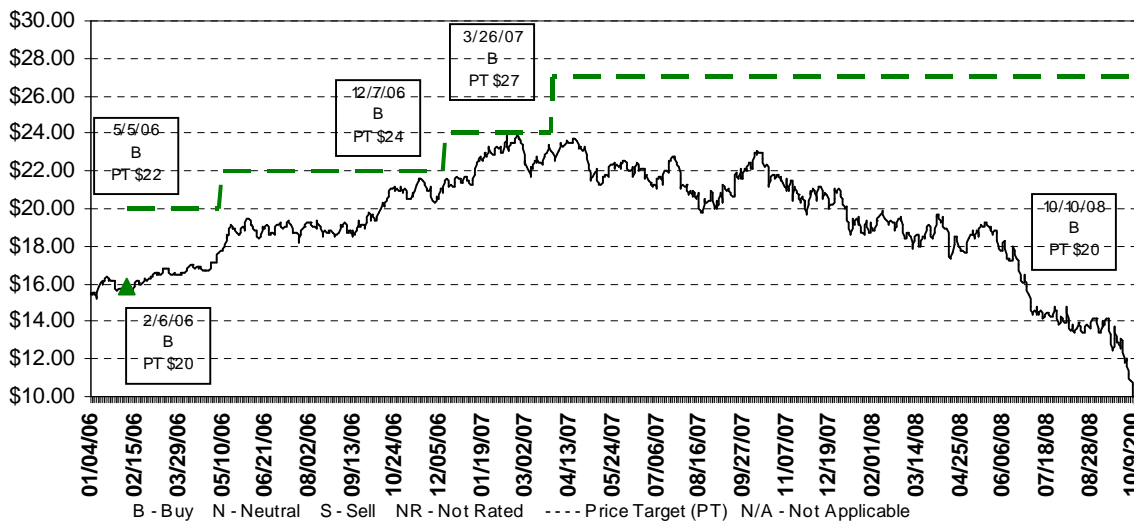
- Further News Corp. acquisitions. Investors are always concerned with News Corp.'s acquisition appetite, with the acquisition of Dow Jones (\$5.6 bn) viewed as another example of Rupert Murdoch's continued empire building.
- Inherent unpredictability of film and television content that affects News Corp's movie business and television network business. Furthermore, we continue to believe the broadcast network business will increasingly be pressured by technological change and fragmentation. It is critical that News Corp. continues to drive its cable network business to mitigate this risk.
- Beyond earnings weakness, any significant adverse changes in the geopolitical/regulatory environment in China, India, and Italy or across Latin America, where News Corp. has its largest developing businesses, could pressure News Corp.'s stock as investors would be concerned about the stranding of capital.

General Risks of Equity Investing

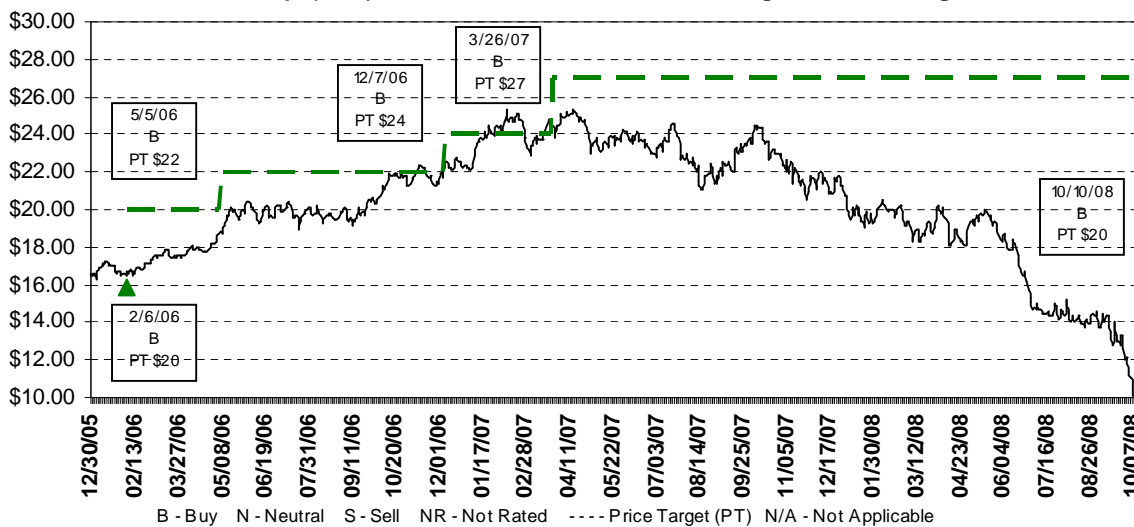
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Disclosure Charts for NWS/A and NWS

News Corp. (NWS'A) Stock Performance and Pali's Ratings and Price Targets



News Corp. (NWS) Stock Performance and Pali's Ratings and Price Targets



Source: Thomson

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